

Skilled Person Learnings for Consumer Investments Firms #4

Portfolio and Fund Management - Managing Risk and Vulnerability

Skilled Person (FSMA s166) reports continue to drive up costs for firms, increase regulatory scrutiny, and cause reputational damage. There is no sign that they are reducing in number. Although a lack of proactive engagement with the FCA often contributes to a Skilled Person report being mandated, we often find weaknesses in critical, embedded controls.

This is the fourth in a series of articles which share practical 'lessons learned' insights from our Skilled Person and advisory work covering:

1. CASS
2. Financial crime
3. Advisory and sales practices
4. Portfolio and fund management
5. Product governance

We aim to provide actionable takeaways for firms. If you would like a healthcheck or simply a discussion about the application of these areas to your business, please let us know.

Top Ten Actionable Learnings from our Work

1. **Misunderstanding vulnerability and wealth** - where customers are invested in or advised to invest in instruments or portfolios based upon wealth rather than personal circumstances and needs; and/or customers not being clearly assessed for vulnerability due to wealth.
2. **Alignment of investments with strategies** - either through overly complex strategies that are ill-defined; and/or through weaknesses in the controls around the investment management processes.
3. **Poor liquidity management** - with liquidity not properly stress tested across a range of appropriate scenarios; and/or insufficient consideration given to the expected volume of exits, particularly during periods of market volatility.
4. **Weaknesses in third party oversight** - where firms are reliant on transfer agents, custodians and other third parties to deliver the end-to-end customer proposition, but where oversight is not proactive and risk based; and/or where data used to assess third party performance does not consider key risks or set and measure performance against appropriate standards.
5. **Complexity of investments** - which are inappropriate for the target market, may not align with the fund parameters and/or do not support the measurement of fund performance against appropriate benchmarks.
6. **Overcharging** - where price and value assessments are not properly performed, do not set clear definitions regarding fair pricing and do not proactively use data and customer feedback to assess whether the service provided justifies the charges being levied.
7. **Unclear customer communication** - which is not targeted at the specific audience and written in a style that is expected to be understood by the target customer segment. Weaknesses have been seen across the customer lifecycle and in key areas such as the explanation of portfolio fees and other charges.
8. **Weak management of conflicts of interest** - including the documentation and handling of the conflicts of the firm's senior managers, owners or other influential figures and weak systems and controls for the identification of actual and potential conflict causes and inappropriate mitigation and action.
9. **Valuation errors or control weakness** - caused by weak systems, a lack of oversight and/or weaknesses in control testing.



- 10. Weak Operational Resilience frameworks** - where key portfolio management related business processes are either not identified or tested thoroughly, with improvement actions not addressing root causes of operational resilience risks.